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## **Intensive Investment Activity for the Development of Recreational Areas**

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***Abstract:***

*This article examines the current investment policy for the development of the recreational industry in the Republic of Kazakhstan in general and the protected nature reserves of the Pavlodar region.*

*The authors describe investment problems with the development of recreational areas and suggest solutions that consider the interests of the society, the state, the investors and the tourists.*

**Keywords:** *Recreational areas, protected nature reserves, investments, recreational activities, tourists.*

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## **1. Introduction**

Modern society is aware of intertwining of ecological and economic systems and expects the economic models for the development of productive forces based on the principles of ecological balance and stability. Such economic models are also shaped by the characteristics of nature in the development of recreational areas in each region of the country.

Recreational areas are redesigned and used for mass recreation as vacation and tourist sites. They may include land plots with resorts, vacation houses, campsites, sports facilities, tourist sites, permanent or temporary tourist camps, fishermen's and hunters' lodges, forests, parks, hiking trails, children's tracks and sports camps, other similar facilities (Land Code of the Republic of Kazakhstan, 2003). Currently, there is a high demand for better nature recreational sites to meet the needs of the population.

The Republic of Kazakhstan has a huge recreational potential, or in other words the country has plenty of unique and interesting natural sites. Recreational potential is a combination of natural and sociocultural factors for organizing recreational activities in a certain territory (Nikolaenko, 2001). By recreational activities we mean human activities that combine fun and pleasure according to the standards of their socio-cultural system (Lascurain, 1996). The terminology is still vague that is why many authors treat the terms «rest», «recreation», «tourism» as synonyms (Nikolaenko, 2001; Tsaregorodtseva and Alkeev, 2015).

It is an understatement to say that Kazakhstan's recreational resources are not used sufficiently. Favorable investment climate and adequate infrastructure is required for the development and improvement of recreational sites. On the one hand, any development plan should include measures to attract and to encourage investments with some incentives. The lack of attention to investing in the recreational industry in the regions reduces the chances for the development of the regional economy because it shuns investments into recreational activities that could improve the quality of recreational use. The lack of comprehensive investment policy in the recreational industry in the Pavlodar region resulted in the extensive and inefficient development of the recreational potential of the Bayanaul State National Natural Park, the Mayalda lake curative mud spas and other recreational facilities. The absence of state financial support decreased the investment attractiveness of the recreational industry. There is also little interest from private and corporate investors.

Tourists and vacationers are attracted by developed facilities and good service. Besides nature, recreational areas need roads and transportation, modern facilities, availability of special equipment, sanitary and hygienic standards, reliable service including food, qualified medical personnel, tours, hikes and other services. The development of tourist infrastructure requires considerable investment.

All interested parties need research to determine the best ways to attract effective investment to recreational areas based on the systematic and regional interest's principles. The development of recreational facilities depends on finding a balance between economic and ecological interests, the expansion and preservation of unique natural sites and the satisfaction of the recreational needs of the population (Soldatova, 2001). The purpose of the study is to describe the ways to attract investors to the recreational industry who agree with the stipulation to preserve the nature of the territory. The object of this study includes investments in the recreational industry of the Republic of Kazakhstan, especially protected natural areas of the Pavlodar region. The subject of the study is the opportunities for the development of recreational areas.

## **2. Materials and Methods**

The theoretical and methodological basis of the study is formed by the regional economic statistics, investment management analysis, and Kazakhstan's legislative and regulatory documents.

## **3. Results and Discussion**

There is little interest in the development of the recreational industry from the state, arguably, because it is not seen as significant for the economy of Kazakhstan. As it is, the current situation creates a problem for the regions with recreational resources because they lack state support and investments required for further development.

Modern often harmful and irresponsible approaches to agriculture radically changed the environment and the use of the land in the Republic of Kazakhstan. It mostly resulted in the irrational use of natural resources, the worsened quality of the land, the damage and deterioration of natural preserves with unique flora and fauna. The protected natural areas (hereinafter referred to as PNAs) are the guarantor and source of the natural potential recovery. The development and designation of the PNAs of Kazakhstan involves the following tasks:

- to organize the network of the PNAs;
- to implement the state regulation of the PNAs;
- to create conditions for organized tourism and recreation, for further development of tourism and recreation with considering the type of protected areas, its functional zones, socio-economic factors and interests of the local population;
- to organize the environmental education of the population (Decree of the Government of 10.11.2000 No. 1692, 2000).

The challenges can be met with defining new approaches in financing recreational industry as defined in the strategy "Kazakhstan - 2000», the Laws of the Republic of Kazakhstan «On Environmental Protection» and «On Specially Protected Natural Areas».

The Pavlodar region has vast and various recreational resources including the Barnaul State National Nature Park (hereafter referred to as the BSNNP). It has a special ecological and economic position based on the legislatively established status as a state national natural park. The park was founded in 1985 as the first national park in Kazakhstan. It was created to preserve and restore the natural flora and fauna of the Bayanaul mountain range. The BSNNP has a unique landscape and nature with recreational, scientific, cultural and aesthetic values. With the total area of 68,453 hectares, the park made the Pavlodar region one of the country's leading tourism centers. The territory of the park is divided into several zones: protected, reserved and regulated for economic use, which is further subdivided into those for intensive and extensive recreational use. The main objectives of the park are to preserve nature with its unique ecological, economic, historical and aesthetic combination of natural and cultural landscapes and to use the park in recreational, educational, scientific and cultural purposes (Soldatova, 2001; Tsaregorodtseva and Alkeev, 2015).

There are 13 tourist routes in the territory of the BSNNP approved by the Committee of Forestry and Wildlife of the Ministry of Agriculture of the Republic of Kazakhstan. However, the service infrastructure of Barnaul recreational facilities leaves much to be desired. Tourist recreation and entertainment are mainly limited to visiting summer sports grounds, bars and cafes.

In 2016 the park had 39 resorts, 2 children centers, as well as 25 cafes. In general, there are 34 hotels in the Bayanaul resort area with 1,246 rooms (Operational report on monitoring of the Development Program 2016-2020 of the Bayanaul District, 2016). The hotels, resorts and lodging facilities belong to Kazakhstan Electrolysis Plant JSC, Aluminum of Kazakhstan JSC, branch of Aksu Ferroalloy Plant, JSC TNK Kazchrome, Bogatyr Access Komir LLP, Eurasian Energy Corporation JSC, Pavlodar Petrochemical Plant JSC.

The unique nature and ecology of the BSNNP ensures the high demand for recreation in the protected areas. Tourists are interested in ecotourism, horse tours, and educational tourism (botanical, ornithological, entomological). There is a service for general excursions and educational (ecological) routes. The volume of accommodation services for tourists in Bayanaul recreational areas is indicated in Table 1.

**Table 1.** Tourist accommodation in Bayanaul recreational area

№	Indicator	2013	2014	2015	2016
1	Number of accommodated tourists	17 303	20 490	25 551	35 366
1.1	Domestic tourists	17 303	20 490	25 551	35 366
1.2	Increase rate compared to the previous year, %	303,6	118,4	124,6	138,4

2	Service cost, thousand KZT	238 656,2	286 604,4	297 512,7	376 806,4
2. 1	Increase rate compared to the previous year, %	701,7	120,1	103,8	126,6
3	Number of guest nights	63 866	70 581	73 855	83 541
3. 1	Increase rate compared to the previous year, %	814,8	110,5	104,6	113,1
<b>Note:</b> Based on the data of Development Program 2016-2020 for the Bayanaul region					

As Table 1 shows, the region saw a steady increase of tourist accommodation services (hotels and resorts) in 2013-2016. The cost of accommodation services for tourists in 2016 amounted to 376,806, 4 thousand KZT – 23.4% more compared to 2015. The increase in the number of visitors was mostly due to domestic tourism. According to the BSNP data, in 2016, 153,778 tourists visited the national park and most of them, or 118,412 tourists did not use accommodation services. The uniqueness of the park limits the anthropogenic load on the ecosystem. Considering the ecology and strict nature protection measures, the specialists estimate the maximum capacity of the BSNP at about 25,000 visitors at one time.

To improve accommodation services two new hotels are being constructed with the completion date in 2018 (Development Program 2016-2020 for the Bayanaul region, 2016). However, the Bayanaul region attracted twice as less investments in 2016 compared to 2013 year. Such a drastic drop is explained by state budget cuts (53.6 % to the level of 2013), local budget (28.7%), investment funds (65.6%). The share of borrowed funds in the total volume of investments decreased from 11.2% to zero. Investments in the development of the Bayanaul region are presented in Table 2.

**Table 2.** Innovative and investment activity in the Bayanaul region

№	Indicator	2013	2014	2015	2016
1	Percentage of innovative enterprises, %	-	-	-	-
2	Manufactured and sold product, mln KZT	0	0	0	0
3	Capital investments, mln KZT	5588,0	8617,0	2929,3	3082,4
4	IPV (index of physical volume) in capital investments, %	137,5	146,2	32,9	115,7
<b>Note:</b> Based on the data of Development Program 2016-2020 for the Bayanaul region					

Table 2 shows that financing from enterprises' funds prevails as investment sources. In 2013-2015, the share of business and private funds in the total volume of investments decreased from 54.3% to 66.6%, budget investments – from 34.4% to 33.4%. In 2013 the capital investment was 11.2%, while in 2015 it dropped to zero. In 2013-2015, the largest investments were directed to the modernization of existing enterprises and the construction of new facilities.

In 2016, 3,082.4 million KZT were invested in the regional capital (IFO 115.7%), of which more than 1,700.0 million KZT (55.1 %) went to the construction of a resort in the recreational area of Zhasybay, while the rest of budget investments went to the construction of bridges on the republican highway between the villages of Birlik and Karashchi. The main hindrances for the development of Bayanaul recreational industry are electricity deficit; the low level of professionalism in the tourism business, poor service quality and high prices; underdeveloped tourist and transport infrastructure of the BHNPP; unfavorable weather conditions; insufficient condition of recreational zones; and poor sanitation.

The development of tourism in the region in 2016-2020 is carried out within the framework of the Concept of Tourism Development and the Development Plan for the tourist cluster of the Pavlodar region till 2020. The priorities of tourism development include infrastructure, effective marketing, increased labor productivity and new jobs (Master-plan for the creation and development of the tourist cluster of the Pavlodar region until 2020, 2017). The plan will help to increase the incomes and employment of the local population and contribute to the development of rural areas. The sustainable development of regional recreational industry depends on investment attractiveness. The Development Program for the Bayanaul region is adopted to promote tourism in 2016-2020 and its goals are shown in Table 3.

**Table 3.** Goals to increase tourism in the Bayanaul region (as a percentage)

N	Target indicators	2015		2016		2017	2018	2019	2020
		plan	fact	plan	fact	plan	plan	plan	plan
1	Increase of accommodated domestic tourists (residents), compared to the previous year	121.5	124.6	100.0	139.2	140.0	142.0	144.0	146.0
2	Increase of accommodated international tourists (not residents), compared to the previous year	*	*	*	*	*	*	*	*
3	Increase in the number of hotel nights provided, compared to the previous year	103.4	104.6	102.0	114.2	115.0	120.0	125.0	130.0
* There is no data available due to the absence of registering of international visitors									
<b>Note:</b> Based on the data of Development Program 2016-2020 for the Bayanaul region, reports on the performance of Development Program 2016-2020 for the Bayanaul region for 2016.									

The data in Table 3 shows the steady progress of the development of Bayanaul recreational industry achieved according to the Development Plan of the tourist cluster of the region for 2015-2020 including:

- Construction of new beaches and tourist routes in the area of Sabyndykol lakes, Zhasybay, Toraygyr (installation of sunshades, urns, bicycle routes, pedestrian paths);
- Improvements in the village of Banayul (streets, squares, playgrounds, football fields, etc.);
- Improvements in the village of Toraigyr (street, sports grounds, football field, the mausoleum of S. Toraigrov);
- Construction of a ski resort in the recreational area of Zhasybay;
- Construction of a tourist information center in the village of Bayanaul;
- Installation of LED screens, publication of promotional products (information stands, billboards, booklets);
- Construction of piers on the lakes Zhasybay, Sabyndykol and Toraygyr;
- Construction of new tourist routes;
- Creation of websites and web applications for the Bayanaul resort area;
- Expansion of the number of hotels and guesthouses;
- Development of ethnographic tourism;
- Improvement of the quality of services;
- Repair of the road Toraigyr-Zhasybay;
- Construction of electricity lines from Phakel to Zhasybay;
- Attraction of investors to the Bayanaul resort area;
- Adjustment of the general BSNNP plan.

In our opinion, one of the primary goals is to update the general plan for the BSNNP. Table 4 shows the expenses of the Bayanaul State National Natural Park.

**Table 4.** *Expenses of the Bayanaul State National Natural Park*

№	Expenditure	2016, fact		2017, plan	
		Mln, tenge	portion, %	Mln, tenge	portion, %
1	Salary	100490,0	55,39	99560,0	55,39
2	Compensation payments	6506,0	3,59	6420,0	3,57
3	Social tax	5257,0	2,90	5195,0	2,89
4	Social contribution to SSIF	4381,0	2,41	4329,0	2,41
5	Contributions for compulsory insurance	418,0	0,23	447,0	0,25
6	Contributions for compulsory medical insurance	-	-	995,0	0,55
7	Remuneration of technical staff	44441,0	24,50	43950,0	4,45

8	Employers' contributions for technical staff	4629,0	2,55	4560,0	2,54
9	Purchase of food	228,0	0,13	228,0	0,13
10	Purchase of fuel and lubricants	9864,0	5,44	9865,0	5,49
11	Other purchases	2675,0	1,47	2048,0	1,14
12	Payment of utility costs	632,0	0,34	632,0	0,35
13	Communication services	484,0	0,27	484,0	0,27
14	Payment for other works and services	470,0	0,26	371, 0	0,21
15	Business trips within the country	394,0	0,22	394,0	0,22
16	Miscellaneous	549,0	0,30	250,0	0,14
Total expenses		181418,0	100,0	179728,0	100,0

The BNSSP Park budget does not have means for the restoration of damaged complexes and facilities, the development and introduction of scientific methods of nature conservation intended for the use of protected areas. Virtually, the entire budget is spent on salaries and social taxes and fees that account for almost 90 %. The plans for 2017 cut expenses by 1690.0 million tenge by reduction in labor costs (Financing Plan 2017 for the Bayanaul State National Natural Park, 2016).

The requirements for successful recreational business are quite high and the development of recreational activity without substantial financial investment is impossible. Even though the industry is profitable, yet it is state regulated and unable to produce high returns. Often private investors seek quick returns and they are not interested in additional maintenance costs or expenses to protect and preserve natural landscape. Investments in the Bayanaul recreational area are very profitable because of substantial costs to sustain and preserve natural reserves. The investment problems also include:

- ecological and social profile of objects for investments, and as result, the low profitability of investment;
- the longer payback period;
- additional costs for the preservation of natural ecosystems, standard and unique natural complexes, the restoration of damaged natural complexes and facilities, the development and introduction of scientific methods of the preservation of natural complexes in case of the intended use of protected areas.

It should be noted that the cost of recovery of lost recreational resources is much higher than the cost of their prevention and protection against tourism exposure.



Therefore, the state remains the main and often single investor when the recreational industry of the Pavlodar region requires considerable investment for its development. State investments mostly go into road construction and maintenance as well as the maintenance of social facilities (education, health care). Table 5 lists the projections from the section «Ecology and Land Resources» of the Development Program for the Pavlodar region.

**Table 5. Goals for environmental improvement in the Pavlodar region**

№	Goals	Units	2015	2016	2017	2018	2019	2020
			fact	estimate	plan	plan	plan	plan
1	Volume of private investment in the fixed capital of water management (water facilities, irrigation and drainage systems and equipment)	%	-	-	-	-	-	-
2	Volume of investment in the fixed assets of forestry	%	-	-	-	-	-	-
3	The index of private investment in the fixed assets of forestation**	%	-	-	-	-	-	-
4	The index of private investment in the fixed assets of wildlife reproduction**	%	-	-	-	-	-	-
5	Ratio of the disposal of municipal solid waste to its formation	%	0	0	0	0	0	0
6	Waste disposal, sorting and transportation service coverage of the oblast, city and capital population	%	69,0	69,0	69,0	75,0	80,0	80,0
7	Percentage of solid waste management plants that meet ecological norms and sanitary rules (total number of their location)	%	1,4	1,4	1,4	1,4	2,0	2,0
8	Amount of norm pollutants	mlnt						
8.1	Air pollutants		0,971	0,971	0,971	0,971	0,971	0,971
8.2	Water pollutants		0,085	0,085	0,085	0,085	0,085	0,085
9	The area covered by forests in the territory of the State Forest Fund under administration of the local executive bodies		89,95	85,95	90,0	90,05	90,1	90,15

1 0	The average area of one forest fire in the territory of the State Forest Fund under administration of the local executive bodies		0,013	0,014	0,013	0,012	0,011	0,010
<i>**There are no statistical data due to the lack of visitors to the entry tourism.</i>								
<i><b>Note:</b> Compiled by the author according to the Program of development of the territory of Pavlodar region for 2016-2020 years.</i>								

The 2020 Development Program for Pavlodar region does not support investments for recreational industry and sites in protected natural sites at the regional level. It is hard to imagine how the following goals of the program will be implemented without adequate funding:

- to ensure the ecological safety of the oblast population, the restoration of the natural integrity of ecosystems, the sustainable use of natural resources;
- to conduct comprehensive scientific research of hydrological examinations for the scientific substantiation of controlled spring flooding of the Irtysh plain to improve the productivity of floodplain meadows and preserve aquatic ecosystems and the ecological biodiversity of natural floodplain ecosystems;
- to adopt target environmental quality;
- to reduce the total number of dump sites (1 MSW object for 1 village district);
- to establish public utility services to collect and remove solid waste to the nearest dump site;
- to restore forest nursery, to cultivate standard seedlings and trees;
- to reproduce forests in the territory of the State Forest Fund;
- to supply state institutions for forest and wildlife protection with fire-fighting equipment (Development Program 2016-2020 for the Pavlodar region, 2016).

#### 4. Conclusion

As seen from above, the investments into recreational industry cannot be fully funded by the state. Therefore, the program must be adjusted to include incentives for private other non-budgetary investments. As of now, private investment into the development is outside any program that makes it irrational. Chaotic tourism to protected nature sites deteriorates their condition and cause additional management issues. Besides, the potential of the recreational complex is used only partially with little revenues for local community. Only the integrated development of the region carried out under the supervision and with the participation of the state can solve the problem and attract additional funding. The state can regulate investment activity in the following forms:

- Adopt laws and regulations that are conducive to investors;
- Supervise and control public investments;
- Adopt public investment programs;
- Introduce economic methods (taxation, free economic zones, distribution and

redistribution of financial resources, loans and government guarantees) (Goncharenko *et al.*, 2005).

State regulation of investment activity in the recreational industry should be carried out at all levels. National governmental bodies should deal with financing and supporting the development of infrastructure and economic base. They should monitor and maintain the safe environment, control and manage programs implementation, creating favorable business conditions. Local governmental bodies are responsible for the implementation of the Development Program for recreational industry and liaison with entrepreneurs and the mass media. In this way, national interests are intertwined with regional agenda. The promising sign for investments would be to maximize the profitability of recreational industry. Government could provide legal guarantees for private and institutional investors. The clear and comprehensive investment policy can strengthen the recreational industry and to bring positive changes to the region. The program would also allow the state to both preserve the nature and create socioeconomic results.

It is important for investors to choose their projects wisely as they define and prioritize their criteria and evaluate the profitability of investment. As a rule, the investors prefer short-term projects with high returns. They also consider social factors such as local employment and profitability of regional budgets. Flexible and various governmental incentives for such projects could help to increase the socio-economic effect. The state should support the investors at all stages. During the drafting stage, the investors should have full access to information. During the implementation stage, the investors should have government guarantees and sureties, small and medium subventions to pay interest on bank loans. The government could also offer temporary tax breaks to new recreational facilities.

Investment decisions need to be done in consideration with strict environmental protection rules according to the legislation on the functioning of tourist zones, sports, tourist routes, agriculture, and mining. The Bayanul State National Nature Park is an example when all factors come into play because its natural resources can be used for many purposes such as to increase market share, sales volume, profitability, competitiveness, renovation, abatement techniques and technologies.

Traditional investment performance indicators mostly focus on financial returns and measure the profit over a certain payback period. In this respect, accurate statistics is problematic considering the specificity of natural resources used in the implementation of investment projects. Investment projects of the recreational industry should spell out clear objectives, benchmarks, tasks and desired results. Only their detailed planning will result in successful implementation with realistic returns on investment into the recreational industry.

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